POLICY BRIEF

HOUSE REPUBLICAN POLICY COMMITTEE

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# THE INEQUITY OF STUDENT LOAN FORGIVENESS

Student loan forgiveness is regressive, inequitable, and it will not stimulate the economy. Instead, it will create an incentive for students to accumulate more debt and award as much as $192 billion to the top 20 percent of income earners.[1] Forgiveness is fundamentally unfair because it will ultimately be paid by taxpayers—many who have faithfully paid off their student loans, worked hard to pay for college, or chose not to go to college at all.

- **Outstanding federal student loan debt currently totals $1.7 trillion and is disproportionately held by the wealthy.[2]**
  - Of 255 million adult Americans, 45 million have student loan debt. Those in the top fifth of household income hold $3 in student loans for every $1 held by the bottom fifth of household incomes.[3]
  - Graduate students hold 40 percent of student loan debt, and the fields of study with the largest student loans include high income dentistry, medicine, and law. [4]
- **Though Democrats claim student loan debt cancellation will aid the COVID-19 pandemic recovery, cancellation does nothing to help the 210 million Americans without student debt who are also suffering.**
  - In fact, those without college degrees have faced unemployment rates 1.75-2 times higher than those with college degrees during the COVID-19 pandemic.[5] Student loan debt cancellation would require these hard-working Americans who have been hurt worst by the pandemic to pay for the debt of those who are still employed or able to find jobs.
  - Furthermore, students already have loan-payments and interest accrual suspended until September 30, 2021.[6] That is to say, the argument for canceling loan payments which are already temporarily canceled to aid in the pandemic recovery is meaningless.
- **Programs already exist to aid students in re-paying their loans through income-driven repayment (IDR) plans. As of 2019, 40 percent of borrowers are enrolled in an IDR plan.[7]**
  - These plans allow students to repay their loan at a speed that works for their income level, and these plans offer full forgiveness after 20 or 25 years.[8] Those who continue to promote student loan forgiveness need to answer why forgiveness is a better alternative to the existing generous repayment plans.
  - Additionally, for borrowers already enrolled in income-driven repayment plans, their monthly payment would be unaffected by forgiveness. Their payments are already set at the rate of their income, not the amount left to be paid.
- **An underlying reason for excessive student loan debt is increasing higher education costs.**
  - From 1980 to 2016, average yearly tuition has increased a whopping 238 percent, an increase greater than the rate of healthcare prices. When the government subsidizes tuition cost through loans and grants, it "creates artificially high demand for colleges degrees, driving tuition prices higher and increasing the overall cost for students and taxpayers."[9]
  - The Federal Reserve Bank of New York found that for every additional dollar of subsidized federal student loan, tuition increases 60 cents.[10]

- Thus, cancelling student loans will only serve to exacerbate the problem of higher education costs, which is one of the driving factors of student loan debt.

Congress should resist calls for loan forgiveness and instead focus on market driven solutions that bring down the cost of higher education, including reducing the government's role in the student loan market.[11] Congress should encourage colleges and universities to recruit students to study subjects that will lead to quality jobs. Moreover, Congress should focus on re-starting student loan payments as the economy reopens, improving income-based repayment plans, and ending any loan forgiveness. By doing this, Congress can strengthen the value of higher education for this generation and those to come.

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